Fermenta Biotech Limited

April 6, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term bank facilities (Fund based)	35.75 (enhanced from Rs.34 crore)	**CARE BBB+ [Triple B Plus] (under Credit watch with developing implications)**	**Continues on credit watch with developing implications**
Long-term bank facilities (Term loan)	7.00	**CARE BBB+ [Triple B Plus] (under Credit watch with developing implications)**	**Continues on credit watch with developing implications**
Short-term Bank Facilities (non-fund based)	5.25	**CARE A3+ [A Three Plus] (under Credit watch with developing implications)**	**Continues on credit watch with developing implications**
Total	**48.00 (Rs. Forty Eight crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Fermenta Biotech Limited (FBL) continue to be under 'credit watch with developing implications' following the impending clarity on the probable amalgamation/merger of FBL with DIL Limited and the possible impact of the same on the credit profile of FBL. CARE will take a final view on the rating, once the exact implications of the above development on the business and overall credit profile of the FBL are clear.

The ratings continue to derive strength from established track record in pharmaceutical industry, leadership position in Vitamin D3 product range albeit product concentration risk, wide spread presence across various geographies with reputed client base, and comfortable capital structure and debt coverage indicators. The core expertise in Vitamin D3 is developed on the back of strong in-house research and development team. Furthermore, the ratings derive comfort from healthy growth in sales and profitability in 9MFY18 (refers to the period April 1 to March 31) majorly on account of favourable market condition in feed grade segment resulting into strong liquidity position for the company albeit profitability impacted in FY17.

The rating strengths are tempered by working capital intensive nature of business albeit strong liquidity position in 9MFY18, supplier concentration risk for major raw materials for Vitamin D3, profitability susceptible to volatile movement of commodity prices and competition from China in feed grade segment.

The ability of the company to maintain improved profitability whilst scaling up operations as envisaged, and efficient management of working capital cycle are key rating sensitivities. Furthermore, any major capital expenditure if any undertaken impacting the existing cash flows/capital structure of the company is a key rating montiorable.

Detailed description of the key rating drivers

Key Rating Strengths

Established track record in the pharmaceutical industry along with strong research and development: FBL has an established track record of over three decades in the pharmaceutical business with key focus on the Vitamin D3 segment. Over the years, the company developed in-house research and development (R&D) team to improve process and product technologies to have competitive edge in the industry. The research and development division has been approved by Department of Scientific Industrial Research (DSIR), Ministry of Science and Technology, Government of India.

Leadership position in Vitamin D3 segment albeit high product concentration risk: The company's business can be classified majorly under four segments which are Vitamin D3, specialty APIs, biological enzymes and biotech based environmental solutions. The company is one of the few players globally to obtain a Certificate of Suitability from European Directorate for the Quality of Medicines (EDQM) for manufacturing of Vitamin D3. However, out of total sales in FY17, 69% is contributed through Vitamin D3 range leading to product concentration risk.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Reputed client base with presence in domestic and export markets: In FY17, around 75% of the total sales are derived from export markets with presence across 50 countries and sales to reputed players in the industry.

Improvement in operational performance in 9MFY18 albeit decline in FY17: In 9MFY18, the temporary closure of manufacturing units in China due to environmental concerns resulted in shift of demand and increase in prices under feed grade segment. Owing to the above and increase in selling prices positively impacted the operational performance in 9MFY18. The same is reflected in increase in total operating income and profit before interest, depreciation and tax (PBILDT) margin to Rs.202.62 crore and 31.52% in 9MFY18. In FY17, the total operating income increased to Rs.161.42 crore from 149.44 crore in the previous year, however, PBILDT margin declined to 14.36% in FY17 from 18.43% in FY16. The same is on account of volatility in commodity prices, and provisioning for old recoveries under feed grade segment, and increase in fixed costs due to fully operational of Dahej plant. The same along with increase in selling price positively contributed to increase in considerable improvement in sales and profitability as compared to the corresponding period in the previous year.

Comfortable capital structure and debt coverage indicators: The company's financial risk profile is comfortable characterized by moderate overall gearing (including acceptances) at 0.45 times as on March 31, 2017. Furthermore, the debt coverage indicators also stood comfortable i.e. interest coverage ratio at 5.66 times and total debt to gross cash accruals (GCA) at 1.94 times in FY17.

Key Rating Weaknesses

Supplier concentration risk: The major raw material for manufacturing of Vitamin D3 is cholesterol which is an oligopolistic market, thus, resulting in supplier concentration risk.

Working capital intensive operations albeit improvement in liquidity position in 9MFY18: The business is working capital intensive since it carries significant inventory for various products under manufacturing at different stages of production, maintained at two factories. Also, the credit period required to be offered to customers under feed grade segment is is higher due to intense competition. Thus, the operating cycle continued to high at 131 days in FY17. However, due to improvement in operational performance during 9MFY18, the liquidity position improved for the company as reflected in minimal utilisation of fund based working capital limits.

Susceptible to volatile movement of commodity prices and competition from China under feed grade segment: China is the major supplier in animal feed segment and the industry is characterized with intense competition, low entry barrier and volatile commodity prices. In FY18 due to environmental concerns in China resulted in temporary closure of units favourably impacting the overall industry. Furthermore, the profitability continues to be vulnerable to movement in commodity prices.

Analytical approach: Standalone

DIL Limited (parent company) is considering a probable merger with FBL, yet to be appraised by the Board. Therefore, standalone view is considered for analyzing the credit profile of FBL.

Applicable Criteria

CARE's Policy on Default Recognition
Criteria for placing rating on credit watch
Rating Methodology: Factoring Linkages in Ratings
Rating Methodology – Pharmaceutical Sector
Criteria for Short Term Instruments
Financials Ratio-Non Financial Sector

About the Company

FBL was incorporated in 1986 and is a subsidiary of DIL Limited (DIL), holding 91.20% equity stake as on December 31, 2017. The parent company, DIL is a listed entity engaged in real estate activity with promoters of DIL being DVK Investments and others.

FBL's business can be classified majorly under four segments which are Vitamin D3, specialty active pharmaceutical ingredients, biological enzymes and biotech based environmental solutions with each contributing 69%, 24%, 3% and 4% respectively to the total gross sales in FY17. The company's manufacturing facilities are located at Kullu (Himachal Pradesh) and in Dahej (Gujarat). The facilities are registered with Food Facility Registration Module (FFRM) which operates under the aegis of United States Food and Drug Administration (USFDA). FBL is also certified by World Health Organisation (WHO), Good Manufacturing Practise (GMP), USFDA Establishment Inspection Report (EIR) and has received Certificate of Suitability (CEP) accreditation issued by European Directorate for the Quality of Medicines (EDQM) for vitamin D3 manufacture. The company has two wholly owned subsidiaries Fermenta Biotech UK Limited and GI Biotech Private Limited which are dormant.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	149.44	161.42
PBILDT	27.53	23.18
PAT	11.89	9.89
Overall gearing (times)	0.45	0.45
Interest coverage (times)	5.57	5.66

A: Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Analyst Contact:
Name: Mr. Vikash Agarwal
Tel: 022 6754 3405
Board: 022 6754 3456
Email: vikash.agarwal@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument/facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Fund based	-	-	-	35.75	CARE BBB+ (Under Credit watch with Developing Implications)
Fund-based - LT-Term Loan	-	-	November 2020	7.00	CARE BBB+ (Under Credit watch with Developing Implications)
Non-fund-based - ST-BG/LC	-	-	-	5.25	CARE A3+ (Under Credit watch with Developing Implications)

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Dates & Ratings assigned in 2018-2019	Dates & Ratings assigned in 2017-2018	Dates & Ratings assigned in 2016-2017	Dates & Ratings assigned in 2015-2016
1.	Fund-based - LT-Fund based	LT	34.75	CARE BBB+ (Under Credit watch with Developing Implications)	-	1)CARE BBB+ (Under Credit watch with Developing Implications) (26-Dec-17) 2)CARE BBB+; Stable (19-Apr-17)	-	-
2.	Non-fund-based - ST-BG/LC	ST	5.25	CARE A3+ (Under Credit watch with Developing Implications)	-	1)CARE A3+ (Under Credit watch with Developing Implications) (26-Dec-17) 2)CARE A3+ (19-Apr-17)	-	-
3.	Fund-based - LT-Term Loan	LT	7.00	CARE BBB+ (Under Credit watch with Developing Implications)	-	1)CARE BBB+ (Under Credit watch with Developing Implications) (26-Dec-17) 2)CARE BBB+; Stable (19-Apr-17)	-	-

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691